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Exposure Draft

Accounting Standard (AS) 28

Accounting for Investments in Associates and Jointly Controlled Entities

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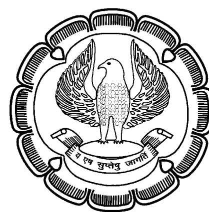

Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 28, *Accounting for Investments in Associates and Jointly Controlled Entities*

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, are applicable to the specified class of companies. Accounting Standards notified under Companies (Accounting Standards) Rules 2021, and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, it has been decided to revise the Accounting Standards. Accordingly, the Accounting Standards Board of ICAI has initiated the process of revision of these standards which will be applicable to the entities to whom Ind AS are not applicable. While formulating these Standards, it was decided to maintain the consistency in the numbering of AS with Ind AS numbering.

In the above background, the ASB has finalised AS 28, *Accounting for Investments in Associates and Jointly Controlled Entities,* taking AS 23, *Accounting for Investments in Associates in Consolidated Financial Statements,* notified by MCA as the base. Major differences between draft of AS 28 and Ind AS 28, *Investments in Associates and Joint Ventures*, are included in the Appendix 1 of the Standard. Major differences between draft of AS 28 and AS 23 are included in the Appendix 2 of the Standard.

This is the Exposure Draft of the Accounting Standard (AS) 28, *Accounting for Investments in Associates and Jointly Controlled Entities*, issued by the ASB, for comments.

The ASB invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment:
Comments can be submitted using one of the following methods so as to receive not later than ***February 3, 2022.***

Electronically:	click on http://www.icai.org/comments/asb/to submit comments online
Email:	Comments can be sent at commentsasb@icai.in
Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Accounting Standard (AS) 28
Accounting for Investments in Associates and Jointly Controlled Entities[1]

*This Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*

Objective

The objective of this Standard is to set out principles and procedures for recognising the effects of the investments in associates and to set out the requirements for application of the equity method when accounting for investments in associates and joint controlled entities.

Scope

1. This Standard shall be applied by the investors with significant influence over, or joint control of, an investee. In the preparation of consolidated financial statements, other Accounting Standards also apply.

2. This Standard also deals with accounting for investments in associates or jointly controlled entities in the preparation and presentation of separate financial statements by an investor.

Definitions

3. For the purpose of this Standard, the following terms are used with the meanings specified:

An associate is an entity in which the investor has significant influence.

The equity method is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The terms '*control*', '*group*', '*equity*', '*subsidiary*', '*consolidated financial statements*' are defined in AS 110, *Consolidated and Separate Financial Statements*, and the term 'joint control' is defined in AS 111, *Financial Reporting of Interests in Joint Ventures,* and are used in this Standard with the meanings specified in those AS.

4. For the purpose of this Standard significant influence does not extend to power to govern the financial and operating policies of an entity. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiary(ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that

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[1] It is clarified that AS 28 is mandatory if an entity presents consolidated financial statements. In other words, if an entity presents consolidated financial statements, it shall account for investments in associates or jointly controlled entities in the consolidated financial statements in accordance with AS 28 from the date of its coming into effect.

this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary(ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

5. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

   (a) representation on the board of directors or corresponding governing body of the investee;

   (b) participation in policy making processes;

   (c) material transactions between the investor and the investee;

   (d) interchange of managerial personnel; or

   (e) provision of essential technical information.

Equity Method

6. Under the equity method, the investment in an associate or a joint controlled entity is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for alterations in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been included in the statement of profit and loss. Such changes include those arising from the revaluation of property, plant and equipment and investments from foreign exchange translation differences.

   Explanations:

   (a) Adjustments to the carrying amount of investment in an investee arising from changes in the investee's equity that have not been included in the statement of profit and loss of the investee are directly made in the carrying amount of investment without routing it through the consolidated statement of profit and loss. The corresponding debit/ credit is made in the relevant head of the equity interest in the consolidated balance sheet. For example, in case the adjustment arises because of revaluation of property, plant and equipment by the investee, apart from adjusting the carrying amount of investment to the extent of proportionate share of the investor in the revalued amount, the corresponding amount of revaluation reserve is shown in the consolidated balance sheet.

Accounting for Investments – Equity Method

7. An investment in an associate or a jointly controlled entity shall be accounted for in consolidated financial statements under the equity method

8. Recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate or a jointly controlled entity because the distributions received may bear little relationship to the performance of the associate or a jointly controlled entity. As the investor has joint control

of, or significant influence over, the investee, the investor has an interest in the associate's or a jointly controlled entity's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its consolidated financial statements to include its share of results of such an investee. As a result, application of the equity method in consolidated financial statements provides more informative reporting of the net assets and net income of the investor.

Classification as held for sale

9. The investor shall apply AS 105, *Non-current Assets Held for Sale and Discontinued Operations,* to an investment, or a portion of an investment, in an associate or a jointly controlled entity that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a jointly controlled entity that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an investor shall account for any retained interest in the associate or a jointly controlled entity in accordance with AS 109, *Financial Instruments,* unless the retained interest continues to be an associate or a jointly controlled entity in which case the entity uses the equity method.

10. When an investment, or a portion of an investment, in an associate or a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

11. An investor shall discontinue the use of the equity method from the date that it ceases to be an associate or a jointly controlled entity as follows:

(a) If the investment becomes a subsidiary, the investor shall account for its investment in accordance with AS 103, *Accounting for Amalgamations,* and AS 110.

(b) If the retained interest in the former associate or a jointly controlled entity is a financial asset, the investor shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with AS 109. The investor shall recognise in profit or loss any difference between:

(i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or a jointly controlled entity; and

(ii) the carrying amount of the investment at the date the equity method was discontinued.

12. If an investment in an associate becomes an investment in a jointly controlled entity or an investment in a jointly controlled entity becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

Application of the Equity Method

13. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures set out in Accounting Standard (AS) 110, *Consolidated and Separate Financial Statements*. Furthermore, the broad concepts underlying the consolidation procedures used in the acquisition of a subsidiary are adopted on the acquisition of an investment in an associate or a jointly controlled entity.

14. An investment is accounted for under the equity method from the date on which it becomes an associate or a jointly controlled entity. On acquisition of the investment any difference between

the cost of acquisition and the investor's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

(a) goodwill relating to an associate or a jointly controlled entity is included in the carrying amount of the investment.

(b) any excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is recognised directly in equity as capital reserve in the period in which the investment is acquired.

Appropriate adjustments to the investor's share of the associate's or jointly controlled entity's profit or loss after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or jointly controlled entity's profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment.

15. Although potential voting rights are considered in deciding whether significant influence exists, an investor shall measure its share of profit or loss of the associate and its share of changes in the associate's equity on the basis of present ownership interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights

16. Gains and losses resulting from 'upstream' and 'downstream' transactions between the investor (including its consolidated subsidiaries) and its associate or jointly controlled entity are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate or jointly controlled entity. 'Upstream' transactions are, for example, sales of assets from an associate or a jointly controlled entity to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its jointly controlled entity. The investor's share in the associate's or a jointly controlled entity's gains or losses resulting from these transactions is eliminated.

17. When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

18. To assess whether a transaction between an investor and associates or jointly controlled entity provides evidence of impairment of an asset, the investor determines the recoverable amount of the asset as per Accounting Standard (AS) 36, *Impairment of Assets*. In determining value in use, future cash flows from the asset are estimated based on continuing use of the asset and its ultimate disposal by the associates or a jointly controlled entity.

19. The most recent available financial statements of the associate or jointly controlled entity are used by the investor in applying the equity method; they are usually drawn up to the same date as the financial statements of the investor. When the reporting dates of the investor and the associate or jointly controlled entity are different, the associate or jointly controlled entity often prepares, for the use of the investor, statements as at the same date as the financial statements of the investor. When it is impracticable to do this, as defined in AS 1, *Presentation of Financial Statements,* financial statements drawn up to a different reporting date may be used. The consistency principle requires that the length of the reporting periods, and any difference in the reporting dates, are consistent from period to period.

20. When financial statements with a different reporting date are used, adjustments are made for

the effects of any significant events or transactions between the investor (or its consolidated subsidiaries) and the associate or jointly controlled entity that occur between the date of the associate's or jointly controlled entity's financial statements and the date of the investor's consolidated financial statements. In any case, the difference between the end of the reporting period of the associate or jointly controlled entity and that of the investor shall be no more than three months.

21. The investor usually prepares consolidated financial statements using uniform accounting policies for the like transactions and events in similar circumstances. In case an associate or a jointly controlled entity uses accounting policies other than those adopted for the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to the associate's or jointly controlled entity's financial statements when they are used by the investor in applying the equity method. If it is impracticable, as defined in AS 1, *Presentation of Financial Statements,* to do so, that fact is disclosed along with a brief description of the differences between the accounting policies.

22. If an associate or a jointly controlled entity has outstanding cumulative preference shares held outside the group and are classified as equity, the investor computes its share of profits or losses after adjusting for the preference dividends whether or not the dividends have been declared.

23. If, under the equity method, an investor's share of losses of an associate or a jointly controlled entity equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate or jointly controlled entity to satisfy obligations of the associate or jointly controlled entity that the investor has guaranteed or to which the investor is otherwise committed. If the associate or jointly controlled entity subsequently reports profits, the investor resumes including its share of those profits only after its share of the profits equals the share of net losses that have not been recognised.

24. Where an associate or a jointly controlled entity presents consolidated financial statements, the results and net assets to be taken into account are those reported in that associate's or jointly controlled entity's consolidated financial statements.

25. If there is an indication that an investment in an associate or a jointly controlled entity may be impaired, an investor shall test the entire carrying amount of the investment for impairment in accordance with AS 36, *Impairment of Assets,* as a single asset. Any goodwill included as part of the carrying amount of the investment in the associate or jointly controlled entity is not tested separately for impairment but, instead, as part of the test for impairment of the investment as a whole.

Contingencies

26. In accordance with Accounting Standard (AS) 10, *Events Occurring After the Reporting Period*, the investor discloses in the consolidated financial statements:

(a) its share of the contingencies and capital commitments of an associate or a jointly controlled entity for which it is also contingently liable; and

(b) those contingencies that arise because the investor is severally liable for the liabilities of the associate or jointly controlled entity.

Separate Financial Statements of an investor

27. In an investor's separate financial statements, interest in an associate or a jointly controlled entity shall be accounted for in accordance with Section B of AS 110.

Disclosure

28. In addition to the disclosures required by paragraph 21, an appropriate listing and description of associates including the proportion of ownership interest and, if different, the proportion of voting power held shall be disclosed in the consolidated financial statements.

29. Investments in associates or jointly controlled entity accounted for using the equity method shall be classified as non-current asset unless the investment is classified as held for sale in accordance with AS 105, *Non-current Assets Held for Sale and Discontinued Operations* and disclosed separately in the consolidated balance sheet. The investor's share of the profits or losses of such investments shall be disclosed separately in the consolidated statement of profit and loss.

30. The name(s) of the associate(s) or jointly controlled entity(ies) of which reporting date(s) is/are different from that of the financial statements of an investor and the differences in reporting dates shall be disclosed in the consolidated financial statements.

Appendix 1

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 28 and the corresponding revised Accounting Standard (AS) 28, Accounting for Investments in Associates and Jointly Controlled Entities.

Note 2: Paragraph numbers appearing in Revised AS 28 can be different as compared to those in Ind AS 28.

Comparison with Ind AS 28, *Investments in Associates and Joint Ventures*

1. Ind AS 28 permits an entity that has an investment in an associate, a portion of which is held indirectly through venture capital organisations, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, to elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 109 regardless of whether these entities have significant influence over that portion of the investment. Revised AS 28 does not provide for the same.

2. Both revised AS 28 and Ind AS 28 require that similar accounting policies should be used for preparation of investor's financial statements and in case an associate uses different accounting policies for like transactions, appropriate adjustments shall be made to the accounting policies of the associate. Revised AS 28 provide exemption to this that if it is impracticable to make adjustments to the accounting policies of the associate, the fact shall be disclosed along with a brief description of the differences between the accounting policies. Ind AS 28 provides that the entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so but does not require specific disclosure in this regard.

3. Ind AS 28 provides that for the purpose of absorption of entity's share of losses of an associate or joint venture, it considers carrying amount of the investment together with any long-term interests that, in substance, form part of entity's net investment in associate or joint venture. While revised AS 28 does not deal with long-term interests that, in substance, form part of entity's net investment in associate or jointly controlled entity.

Appendix 2

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Revised Accounting Standard (AS) 28 and the Accounting Standard (AS) 23, Accounting for Investments in Consolidated Financial Statements.

Note 2: Paragraph numbers appearing in Revised AS 28 can be different as compared to those in AS 23.

1. AS 23 covers accounting for associates whereas revised AS 28 covers accounting for associates and application of equity method to account for investments in Associates and joint controlled entities.

2. AS 23, defines 'Significant Influence' as 'power to participate in the financial and/or operating policy decisions of the investee but is not control over those policies'. In revise AS 28, the same has been defined as 'power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies'.

3. Revised AS 28 requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal of that portion of the interest would fulfil the criteria to be classified as held for sale in accordance with AS 105. AS 23 did not specifically dealt with this aspect.

4. AS 23 permits the use of financial statements of the associate drawn upto a date different from the date of financial statements of the investor when it is impracticable to draw the financial statements of the associate upto the date of the financial statements of the investor. There is no limit on the length of difference in the reporting dates of the investor and the associate. As per revised AS 28, length of difference in the reporting dates of the associate or joint venture should not be more than three months.

5. Exemptions from applying equity method in AS 23 are investments acquired and held for subsequent disposal in near future and where the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investee. No such exemptions are provided in revised AS 28.

6. Revised AS 28 provides guidance regarding accounting requirements in case equity method is discontinued, i.e., when investment ceases to be an associate and becomes the subsidiary, and if the retained interest becomes a financial asset. AS 23 provides that when equity method is discontinued, retained interest is accounted for as per AS 13, *Accounting For Investments*.

7. As per AS 23, in separate financial statements, if investment in an associate is not accounted for as per the equity method, the same is accounted for in accordance with AS 13, *Accounting for Investments*. This aspect is covered under revised AS 110, *Consolidated and Separate Financial Statements*. As per revised AS 110, the same is to be accounted for at cost or in accordance with Ind AS 109, *Financial Instruments*.